CB(1)584/01-02(01)

Press Release

HKMA announced proposals to revise the market entry criteria for the banking sector

The Hong Kong Monetary Authority (HKMA) released today (11 December 2001) a paper on the review of the market entry criteria for the banking sector and the three-tier authorization regime for consultation with the industry associations. The paper reports on the results of an internal review conducted by the HKMA and sets out a number of proposals based on the review. The review is part of the Banking Sector Reform Programme announced by the HKMA in 1999 which aims at promoting greater competition in the banking sector and strengthening the safety and soundness of the banking system.

One of the major proposals of the review is to remove the US$16 billion asset size criterion applicable to overseas-incorporated banks wishing to set up a branch in Hong Kong. This would significantly reduce the hurdle for foreign banks to enter the Hong Kong market as full licensed banks. Instead of the US$16 billion asset size criterion, it is proposed that foreign banks should be subject to the same size criteria with respect to total assets and customer deposits as locally incorporated banks (proposed to be increased to HK$5 billion and HK$4 billion respectively), thereby applying a consistent treatment to all applicants for a banking licence – irrespective of their place of incorporation.

The HKMA also proposes to relax the current criteria for locally incorporated Restricted Licence Banks (RLBs) and Deposit-taking Companies (DTCs) to upgrade to full licensed bank status. These include reducing the period of operation as an RLB or DTC from 10 to 3 years and dispensing with the requirement to be "closely associated and identified with Hong Kong".

In order to strike a balance between on the one hand making it easier for institutions to enter the market as, or upgrade to, full licensed banks while on the other hand avoiding a multiplicity of small banks, the HKMA proposes to increase the minimum paid-up capital requirement for licensed banks from HK$150 million to HK$300 million. This requirement was last adjusted in 1989 and the increase would also take account of inflation since then.

"These proposals would further open up Hong Kong's banking sector to allow a broader range of domestic and international institutions to participate in the Hong Kong financial markets as full licensed banks. We believe these initiatives will help to rationalise the authorization and market entry system in Hong Kong and will also enhance the status of Hong Kong as an international financial centre," said Mr David Carse, Deputy Chief Executive.

In view of the above changes to the market entry criteria, the HKMA proposes to maintain the current three-tier authorization regime for the time being. The need for revisions to the three-tier structure will be revisited when the above changes have worked their way through the system. "Some RLBs and DTCs may seek to upgrade to licensed banks, eventually leading to a natural simplification of the three-tier system. Market forces should therefore be able to indicate the way forward," Mr Carse said.

A consultation paper is attached at Annex.

For further enquiries, please contact:

Jasmin Fung, Manager (Press), at 2878 8246 or
Thomas Chan, Senior Manager (Press), at 2878 1480

Hong Kong Monetary Authority
11 December 2001